

HOUSE COMMITTEE ON GOVERNMENT REFORM

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TESTIMONY OF

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on

**MANAGING OVERSEAS PROPERTIES OF THE
UNITED STATES DEPARTMENT OF STATE**

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Thank you Mr. Chairman and Members of the Committee, for this opportunity to discuss the work of the Overseas Buildings Operations Bureau (OBO) in managing the Department of State's real property assets overseas. It is a delicate and complex set of responsibilities, involving properties with a value of approximately \$12 billion. I am happy to share my experience and hear your thoughts and questions.

OBO's primary mission, reshaped by the 1998 bombings of the U.S. Embassies in Dar Es Salaam and Nairobi, and reinforced by the events of 9/11, is to accelerate the construction of new facilities that can satisfy more stringent security standards and provide our diplomatic personnel safe, secure, and functional office and residential environments. Too many of our people overseas are in unsafe, insecure, dysfunctional facilities. Our job is to correct that situation as quickly and efficiently as our resources allow.

Restructuring OBO. When I joined Secretary Powell's transition team in December of 2000 to evaluate the Department's overseas facilities status and program, I reviewed the Inman Report, the Crowe Report, the Overseas Presence Advisory Panel (OPAP) Report, and various GAO reports on the challenges facing this function. The OPAP Report stated flatly that "The condition of U.S. posts and missions abroad is unacceptable. . . . [I]nsecure and often decrepit facilities . . . threaten to cripple our nation's overseas capability." And GAO reported in January 2001 that "The need to adequately protect employees and their families from threatened terrorist attacks overseas may very well be the single most important management issue facing the State Department."

I quickly realized that significant organizational and management reforms would be needed to ensure the efficient provision of safe, secure, and functional facilities for our personnel abroad. With the strong support of Secretary Powell, I have instituted fundamental reforms in the structure and operations of what is now OBO, and I am determined to continue working to improve its operations.

My first order of business as Director and Chief Operating Officer of OBO was to take advantage of its elevation to Bureau status as the occasion for a comprehensive reorganization. OBO's new structure reflects the life cycle of our properties: Planning and Development, Project Execution, Operations and Maintenance, and Real Estate and Property Management. Equally fundamental is a new organizational philosophy: every employee at OBO must be accountable, just as the organization as a whole must be held accountable for performance, and both senior management and staff must focus on results, not just business as usual.

OBO and the Department have put in place a number of new management reforms to improve our ability to accomplish its mission:

- A Long-Range Overseas Buildings Plan to establish construction priorities among posts, based on a weighing of security risks and practical capability to execute projects. The LROBP sets out in detail how the Department will address its many competing facilities requirements over the next six years. It is the linchpin and strategic roadmap for State's Overseas Buildings Operations. The first Plan, prepared in July 2001 and revised in April 2002, encompassed Fiscal Years 2002 through 2007. The second annual edition of the Plan, which is being released this week, covers FY 2003 through 2008. It

includes 75 security capital projects estimated at more than \$6.2 billion, 9 other regular capital projects totaling about \$1 billion, 80 major rehabilitation projects estimated at \$640 million, other compound security upgrades, post communications needs, refurbishment of representational residences, and planned real estate acquisitions and disposals.

- A systematic process to gather the most accurate information possible about long-term staffing plans not only of the Department of State, but also of other agencies and departments, including Defense, Homeland Security, Justice, and Treasury, who occupy many of the Department's facilities. The Department's interagency processes help assure that planning for new facilities is integrated with departmental and other agency staffing and post planning analyses.
- A holistic, business-case approach to evaluating real property lease, purchase, management, and disposal decisions.
- The use of Standard Embassy Designs for the first time in the Department's history, and modular construction where appropriate, both of which can improve quality, reduce costs, and shorten design and construction duration.
- Integrated Design Reviews and interagency coordination to ensure that our designs will meet applicable health, safety, security, and functional standards and serve the needs of all of the agencies who will be using the facilities.
- Monthly accountability and performance reviews of every project, which I personally conduct.
- An Industry Advisory Panel to take advantage of industry expertise.

- An Interagency Facilities Committee to provide a forum for all agencies that occupy Department facilities overseas to discuss their needs and concerns.

We hope this Committee will enhance and promote ongoing communications with OBO and among the 26 Departments and agencies that have a presence overseas. The IFC has already met twice and will meet again this summer.

Building New Embassy Compounds. These changes have produced results.

OBO's increased capacity has gone hand-in-hand with a dramatic increase in funding requested by the Administration and appropriated by Congress, for which we are very thankful. OBO obligated nearly \$800 million in Fiscal Year 2002 for construction of secure New Embassy Compounds (NECs). The Fiscal Year 2002 Counterterrorism Supplemental provided OBO just over \$200 million more for NECs in Kabul, Afghanistan, and Dushanbe, Tajikistan, and we have awarded contracts for those projects as well. The Fiscal Year 2003 Appropriation provided \$750 million for security projects, and the Fiscal Year 2003 Emergency Supplemental provided an additional \$149 million for this purpose. OBO's Financial Plans for Fiscal Year 2003 capital security projects are currently being reviewed by the relevant Appropriations subcommittees.

As a result, OBO is currently planning and executing new facilities on a larger scale than the Department has ever managed before. As of today, OBO has 19 New Embassy Compound (NEC) projects underway, involving \$1.4 billion, and we intend to obligate funds for another 10 NEC projects with a total value of \$850 million in Fiscal Year 2003. I believe that OBO has the capacity to manage \$1.8 billion in NEC projects on an annual basis.

In March, Under Secretary Grant Green and I had the pleasure of presiding over the dedication of our New Embassy Compounds in Nairobi, Kenya and Dar Es Salaam, Tanzania, replacing the embassies that were destroyed in 1998. We are also cutting ribbons this year to open New Embassy/Consulate Compounds in Istanbul, Turkey, and Zagreb, Croatia. By the end of 2003, OBO expects to have under construction New Embassy Compounds in Abuja, Nigeria; Beijing, China; Cape Town, South Africa; Conakry, Guinea; Dushanbe, Tajikistan; Kabul, Afghanistan; Phnom Penh, Cambodia; Tashkent, Uzbekistan; Tbilisi, Georgia; and Yaounde, Cameroon.

All of these new facilities are secure, safe, functional, and aesthetically appropriate to their surroundings. They will provide excellent diplomatic platforms for the execution of U.S. foreign policy for decades to come.

Cost Sharing and Rightsizing. Rightsizing the U.S. presence overseas is a vital precondition for the achievement of OBO's mission. Our goal is to build facilities of the right size and configuration in the right locations, and accomplishing that objective requires that the Government make thoughtful decisions about what level of staffing should be located at each post. This need is particularly important at those posts where the Department is scheduled to construct New Embassy Compounds, which must be designed to serve U.S. Government needs for the next half-century. To meet this need, we are taking the following steps:

First, OBO is instituting a new approach to projecting future staffing that we believe is more in line with the existing Federal budgetary realities. In preparing for the FY 2005 update of the Department's Long-Range Overseas Buildings Plan, the Department has instructed posts to conduct a zero-base evaluation of projected staffing

levels for new embassy compounds. The Department's Regional Bureau and any affected agency will be expected to provide a full justification explaining the need for its proposed level of staffing. This justification must include reason to believe that funding and personnel will actually be available for the projected staffing, not just that a perceived policy need exists. The Bureau and agency must be prepared to brief the Office of Management and Budget (OMB) and the Congress with regard to staffing levels, especially where they call for increases over the current authorized levels. The Department will also ask the agency's headquarters and OMB to verify that the projections are plausible.

Second, over the last two years the Department and OMB have been developing a Capital Security Cost-Sharing Program that will dramatically accelerate our embassy construction program and encourage all Departments and agencies to rightsize their overseas presence. Just yesterday I briefed senior officials from more than 25 Departments and agencies about the State Department's proposal and its budgetary implications for them. The proposal would implement the OPAP Report recommendation for a new financing mechanism for embassy construction and supports the President's Management Agenda item on rightsizing. The President's FY 2004 Budget set forth the Administration's intention to implement this program through agency contributions beginning in FY 2005. This proposal is currently under discussion among the agencies that would be affected by this program.

Under the State Department Program, all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new secure, safe, functional diplomatic facilities. The Program would generate a total of

\$17.54 billion to fund approximately 150 new embassy and consular compounds (NECs) over the 14 years FY 2005 through FY 2018. These capital costs would be allocated annually on the basis of the total number of authorized overseas positions of each government agency (including the State Department and the International Cooperative Administrative Support Service (ICASS), whose costs are distributed to all agencies that use the service). The per capita charge would be allocated based on four categories of positions, in recognition of the higher costs for construction of Chief of Mission and classified facilities and the lower capital cost for non-office support positions (e.g., drivers, craftspeople, warehouse workers).

When fully phased in after five years, the overall effect on agency budgets would be to add about 15% to the typical total cost of maintaining a U.S. Government employee overseas, assuming an average total cost of approximately \$340,000 per person. The State Department would pay over 60% of the total amount of this fund. These funds would be used exclusively for the construction of secure, safe, functional NECs in accordance with the Department's Long-Range Overseas Buildings Plan.

As a complement to this Program, the State Department is expanding and formalizing the participation of all agencies in the procedures for setting construction priorities for NECs and for determining their size and cost.

In addition to accelerating funding for urgently needed secure facilities, allocating this capital cost to the sponsoring agencies will encourage each agency to rightsize its staffing.

Third, we propose to incorporate into the Capital Security Cost-Sharing Program an adjustment to address projected staff growth at posts where NECs are being planned.

The Cost-Sharing charge allocated to each agency would include in the count all projected positions at those posts where the staffing level has been used as the basis for determining the size, configuration of space, and budget for a New Embassy Compound. The Department and OMB believe that attaching this financial consequence to the projected level of staffing would encourage all agencies to conduct more careful reviews of projections to assure their feasibility and accuracy.

The combination of administrative reforms in the planning, design, and construction of new embassy compounds and the implementation of the cost-sharing program and related rightsizing incentives will go a long way toward implementing recommendations of OPAP and GAO for long term planning and construction of new facilities and for proper operation and maintenance of existing facilities.

Managing Overseas Real Estate. The rehabilitation, maintenance, and repair of our existing real property assets are major undertakings in themselves. In Fiscal Year 2002 OBO obligated \$190 million for rehabilitation, security upgrades, and other major projects. OBO has 55 major rehabilitation projects underway and expects to initiate another 13 such projects with Fiscal Year 2003 funds, for a total of \$552 million in rehabilitation and security upgrade projects in process. We have literally hundreds of smaller improvement projects, many involving security upgrades, that are conducted cooperatively with post personnel with funds approved by OBO.

Nevertheless, the backlog of unmet needs for rehabilitation projects is substantial. It will take years of funding to restore all of our existing properties to good repair.

OBO is working to streamline all of its procedures for managing overseas real estate through more efficient contracting mechanisms. Our broad knowledge of foreign

markets often enables us to negotiate substantial reductions in prices we pay for properties. We also exercise strict cost controls on residential housing for all overseas agencies. Our staff of real estate analysts reviews every request for a housing lease costing over \$25,000 per year and ensures that each proposed unit is within the established space standards and does not exceed market rents in that location. We estimate that this control function saves at least 10 percent from the potential cost without such evaluation and control.

OBO is also vigorously pursuing the disposal of excess, under-utilized, and over-standard properties.¹ The significant changes in our security standards over the last few years have intensified the concern about excess, under-utilized, and over-standard properties in two ways: first, they have made more existing properties unusable and therefore appropriate for disposition; second, they have created an urgent need to marshal all of our resources to get our people out of harm's way as quickly as possible.

As stewards of the Department of State's real estate investments and as representatives of the taxpaying public, we recognize our obligation to realize the value of property that is no longer useful for the United States and to put that value to work where it is needed. Secretary Powell has given me clear directions and support to make the most efficient use of our existing real property, including disposal of those properties that no longer fit the needs of the U.S. Government.

The authority to use the proceeds of sale from overseas properties for the purpose of replacing and rehabilitating diplomatic and consular facilities, which was given to the Department in 1926, is a further incentive to pursue the prompt and economically sound

¹ GAO Report GAO-02-590, "Sale of Unneeded Properties Overseas Has Increased, But Further Improvements Are Necessary" June 11, 2002.

sale of properties that no longer fit the Department's needs and requirements. Over the years the Department, with Congressional oversight and approval, has put these substantial funds to work for the benefit of U.S. Government personnel overseas. The knowledge that funds from the sale of properties will go to improve overseas working conditions provides an incentive to attend to matters that are otherwise relatively low on the list of post priorities. I am providing for the record copies of the Department's Quarterly Reports on real estate transactions covering FY 2002 and the first half of FY 2003. These Quarterly Reports keep the interested Congressional Committees fully apprised of the Department's past and planned real estate transactions.

The Department has taken a number of steps to facilitate the disposal of excess, under-utilized, and over-standard facilities:

- OBO has taken important steps to improve the accuracy of its real property inventory over the last several years, as the GAO Report recognizes. We are continuing that effort. The Department periodically reminds all diplomatic and consular Chiefs of Mission and their staff of their responsibility to maintain accurate property records. To help perform that task, OBO has implemented new, friendlier software. Building on the framework of the Department's recently-completed "Open Net Plus" sensitive-but-unclassified global intranet, OBO's Real Property Application provides each post with user-friendly software to record and track property holdings. This information is automatically included in the Department's global real property database, which gives us accurate, current information on each of our overseas real properties.

- OBO has set up a Property Disposal unit with a staff whose sole responsibility is property disposal. Like everyone else at OBO, under our new results-based management system their goals are defined in their Performance Measures, and their progress is reported to me every month in our Program Performance Reviews.
- The Property Disposal unit has been given the necessary tools to perform its mission, such as Indefinite Delivery/Indefinite Quantity (IDIQ) Agreements for real estate brokerage, marketing, and appraisals worldwide to facilitate prompt evaluation and disposal of properties when needed.
- The Property Disposal unit has been assigned the task of “accelerated decommissioning,” that is, advance evaluation and prompt disposal of existing properties in cities where new facilities are constructed.
- To assist us in dealing with the cases where strong differences of opinion exist either within the Department or with another Department, OBO calls upon the expertise of the Department’s Real Property Advisory Board. The Board is composed of executives from other Bureaus of the Department of State and real property management experts from the General Services Administration, the U.S. Postal Service, and the CIA, who have no vested interest in the outcome of particular proposals for property disposition. Its conclusions and recommendations are submitted to the Under Secretary for Management for final decision. The Board’s review process ensures that difficult or controversial disposal issues are fully and fairly considered from all perspectives before OBO takes final action.

While the Department has not overcome the obstacles to disposal of certain properties, I believe we are making good progress in dealing with these difficult issues.

Unique Aspects of Managing Overseas Government Real Estate. As you know, the Congress and the Executive Branch have identified OBO in the Department of State as the single real property manager for diplomatic, consular, and other related civilian support properties of the United States Government overseas.² I want to again thank the Congress for its recent reinforcement of OBO's role as the single overseas real property manager, as recommended by the GAO, both in the Foreign Relations Authorization Act in the 107th Congress and in the Omnibus Appropriations Act in the 108th Congress.³

Effective management of overseas real estate requires a high degree of expertise and experience. It calls for complex, long-term, often irreversible commitments involving large sums of money and other resources. The Department of State has a 75-year history of deepening its knowledge to deal with these complex issues.

Foreign policy considerations are overwhelmingly important when overseas real estate is involved. As Congress has recognized, there are a number of reasons why centralized management of the U.S. Government's overseas real estate by the State Department is essential:

² GAO Report GAO-02-790R, entitled Current Law Limits the State Department's Authority to Manage Certain Overseas Properties Cost Effectively, July 11, 2002, lays out the origins of this arrangement, from Congressional Report language, to OMB direction, to Department guidance documents. See page 2.

³ Section 213 of the Foreign Relations Authorization Act, 2003, Pub. L. 107-228, reversed section 738 of the USDA Appropriations Act, which conflicted with the Department of State's role as the single real property manager. GAO Report GAO-02-790R had included in its recommendations, "Congress may wish to consider repealing section 738." More recently, section 215 of the Omnibus Appropriations Act, Pub. L. 108-7, modified an earlier appropriations act (Section 220, Pub. L. 106-554 App. A) that gave the Centers for Disease Control independent authority to lease real property overseas, restoring that authority to the Secretary of State.

- *Foreign Policy and Security Implications.* The location and character of the U.S. diplomatic presence is a high-visibility issue in most foreign capitals. Issues of site selection, security considerations, traffic flow, and zoning can easily become important symbolic political issues that affect, and in turn are affected by, the overall political relationship between the U.S. and the host government and people. Insensitivity to such concerns can be damaging to larger U.S. foreign policy interests and objectives. It can also lead to the expenditure of substantial resources on projects that are destined to fail. Conversely, while a business case analysis may suggest one course of action, non-economic considerations such as security and political symbolism will sometimes outweigh purely economic concerns. Without centralized management in the State Department, the risks of uncoordinated policies would be much greater.
- *Reciprocity and International Law Issues.* Every argument, claim, and technique the U.S. uses in its negotiations for and management of overseas real estate sets a precedent that other nations will try to use to their advantage in connection with their real property in the U.S. and elsewhere in the world. The applicability of international treaties governing diplomatic and consular properties creates special issues both for the U.S. abroad and for foreign government properties in the U.S. Among other things, foreign and international law place limits on the extent to which diplomatic and consular facilities can be used for purely commercial purposes. These restrictions limit

the Department's ability to convert or combine diplomatic properties with commercial uses, even though U.S. law may authorize such arrangements.

- *Unique expertise.* The negotiation and management of overseas real estate requires familiarity with legal and practical issues that are not found in domestic real estate transactions. Foreign laws governing property ownership, different approaches to zoning and land use issues, and currency fluctuation risks are among the distinctive characteristics of these transactions. OBO's international real estate specialists personally negotiate most of the major sale, purchase and lease transactions around the world. Their expertise is crucial in limiting our risk and improving our financial position in what are sometimes extremely complex property transactions.

I hope this testimony demonstrates the progress we are making in bringing rational and efficient real property management to OBO and the Department of State. Thank you for your interest and attention. I will be happy to address any questions you may have.